PILLAR III REPORT
2022
ACHMEA BANK N.V.

achmea
Bank

CONTENTS

SUMMARY ANALYSIS

Common Equity Tier 1 ratio (CET1-ratio) (2021: 20.9%)	Tier 1 Capital ratio (2021: 20.9%)	Total Capital ratio (2021: 20.9%)
18.2%	**18.2%**	**18.2%**

Leverage ratio (2021: 6.6%)	Total Risk Weighted Exposure Amount (2021: € 3,726M)	Write-offs (2021: € 5.0M)
5.4%	**€ 4,264**	**€ 1.2M**

Liquidity Coverage ratio (LCR) (2021: 297%)	Net Stable Funding ratio (NSFR) (2021: 133%)
211%	**130%**

Capital management

Achmea Bank is adequately capitalised. The Total Capital ratio at 31 December 2022 amounted to 18.2% and the leverage ratio amounted to 5.4%. This is well above the current requirements and limits for the capital (risk) position of Achmea Bank. In the near future the capital position is expected to remain above limits. To ensure this, the bank frequently and consistently monitors projections of its capital position, both in going concern as in stress for a horizon of (at least) 3 years. Achmea Bank has an increased (internal) focus on capital optimisation, where capital size, composition and costs form important elements.

Advanced Internal Rating Based (AIRB) approach.

Achmea Bank currently operates under the Standardised Approach (SA), the Basel II methodology applied for calculating credit risk and determining the capital requirement. An alternative to calculating credit risk and thus the capital requirement is the Advanced Internal Rating-Based (AIRB) approach. Achmea Bank is working towards the implementation of Advanced Internal Rating-Based (AIRB) approach for its regular mortgage portfolio(s). This strengthens the bank's credit risk management and data driven strategy further and is, after approval of DNB, expected to result in lower capital requirements.

Liquidity management

Achmea Bank manages its liquidity positions prudently. The most important metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Survival Period. The aim of the LCR is to ensure that the bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer-term funding. The aim of the Survival Period is to ensure the bank holds sufficient liquidity to survive the most severe internal stress scenario for at least six months.

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III report) of Achmea Bank N.V. as of 31 December 2022.

Achmea Bank operates under the CRDIV capital framework which came into force in 2014. CRDIV constitutes the Basel framework which aligns regulatory requirements with the economic principles of risk management. CRDIV is implemented into Dutch law as amendments to the 'Financial Supervision Act' (Wet op het financieel toezicht, Wft) and further accompanying regulations. Pillar III requirements under CRDIV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. The Pillar 3 disclosure framework seeks to promote transparency and market discipline through regulatory disclosure requirements.

Achmea Bank's 2022-year end disclosures are prepared in accordance with the CRDIV requirements and associated guidelines of the European Banking Authority (EBA) technical standards that came into force. This Pillar III Report provides the consolidated disclosures of Achmea Bank NV required by the final draft Implementing Technical Standards (ITS) on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013. The information in this report contains the qualitative information of the regulation. This information has not been reviewed and audited. The quantitative information can be found in the additional template file (Pillar III disclosure templates 2022).

The implementation of CRDIV is subject to transitional arrangements. As of the end of 2022, Achmea Bank no longer uses transitional arrangements.

In addition to the changes required under CRDIV, Achmea Bank monitors and assesses the impact of ongoing regulatory developments.

This report describes the Bank's:

- Company profile
- Risk management
- Capital management.
- Liquidity management
- Credit Risk management
- Securitisations
- Operational Risk management
- Market risk management
- Remuneration principles and policy
- Climate-related risk

ACHMEA BANK

Achmea Bank N.V. (hereinafter referred to as 'Achmea Bank') is a wholly owned subsidiary of Achmea B.V. Achmea B.V. is the ultimate parent company of the Achmea Group, the largest insurance group in the Netherlands, with a history of more than 200 years. Our mission, strategy and identity are strongly connected with Achmea. We are a mortgage, retail savings and retail investment bank. We serve over 400,000 savings customers and approximately 70,000 mortgage customers through the Centraal Beheer and Woonfonds brands. We manage and service a former Staalbankiers loan portfolio, better known as 'Acier Financieringen'. We also invest in mortgages originated by external parties.

Achmea Bank plays a key role in the retirement services (Oudedagsvoorzieningen or "ODV") strategy of Achmea. Achmea Bank is a well-established originator and funder of mortgages with over 40 years of experience with a high-quality mortgage portfolio, as evidenced by a relative low level of delinquencies. As a legal entity with a banking licence, Achmea Bank has a credit rating and direct access to the capital market. We are a frequent issuer in the debt capital markets. We ensure adequate liquidity and capital to meet our obligations to our customers and investors.

Achmea Bank is the retail bank of Achmea, a data driven network bank with the ambition to grow. Together with Centraal Beheer, we aim for becoming a broad financial service provider. This requires a bank with simple and intuitive processes, integrated offers for our customers and a wide range of financial products and services. Over the last few years, we have built on a solid customer- and data-driven, efficient and flexible bank with a sound financial position. Now, Achmea Bank is ready for further growth and new partnerships, which will contribute to an even more robust business model.

We are actively involved with our customers and society. Our core values are passionate, contemporary, ambitious, proud and decisive (in Dutch BEATS)[1]. The duty of care is deeply embedded in our corporate culture. We are result driven and have a professional, open and informal culture. We are based in Tilburg and employ around 200 people.

STRATEGY

Achmea aims to be a leading player in retirement services in response to social and demographic trends and anticipates a shift to more individualised need for retirement solutions. Achmea strongly positioned itself in this market and offers consumers integrated propositions consisting of pension solutions, together with asset management, savings, investment and mortgages products. The Bank forms an integral part of the ODV strategy of Achmea.

Achmea Bank contributes to two of Achmea's strategic impact areas, namely 'income for today and tomorrow' and 'carefree living and working' and therefore plays a key role in the ODV strategy of Achmea.

Achmea Bank is a data-driven network bank with expertise in the fields of balance sheet management, product (pricing), risk management and compliance. Achmea Bank's business model is primarily based on the interest margin on mortgage products. We (co-)create, fund and market simple and transparent retail products.

Achmea Bank' strategy is based on four pillars.

1. Wealth accumulation: Provider of and back office for retail savings and investment products (the latter as of Q2 2023)
2. Mortgages: Funder of mortgages
3. Investments (for the Bank's balance sheet): acquisition of mortgage portfolios from internal and external parties and acting as a liquidity provider and portfolio optimiser, and
4. Partnerships: with the aim of generating New (fee) business

Wealth accumulation

Achmea Bank develops and manages retail savings and as of 2023 investment products in the third and fourth pillar.
Wealth accumulation products are an important part of the retirement services strategy and are essential for positioning Centraal Beheer as a broad financial services provider.

With the addition of investment products Achmea Bank is broadening its strategy and its product range. This will enable customers to choose and/ or switch between saving and investing, while keeping the costs for the customer low. It also offers opportunities for launching innovative products and propositions.

Achmea Bank is also the back office for the wealth accumulation products. We aim to provide tight customer processes and a broad and integrated range of products and services.

Mortgages

Achmea as a group has created a separate account (Achmea Mortgage Investment Platform, (AMIP)) for mortgages. This allows institutional investors to build their own residential mortgage portfolio in the Netherlands with the risk profile they desire. These mortgages are originated under the Centraal Beheer brand. Achmea Bank is one of the investors on this platform, providing a stable source of funding, having skin in the game and creating opportunities for investors to optimise holdings in mortgages.

Achmea Bank has a growth and diversification strategy (volume and margin based), therefore next to mainstream growth via the AMIP, Achmea Bank focusses on niche propositions to achieve a better risk/ return, e.g., buy-to-let mortgages and mortgages for the self-employed.

[1] In Dutch: Bevlogen, Eigentijds, Ambitieus, Trots, Slagvaardig.

Investments (for the Bank's balance sheet)

Acquiring portfolios both within and outside of Achmea increases economies of scale and enables the bank to attract additional assets with risk/return characteristics that fit well into our balance sheet. The focus is on mortgages with a shorter fixed-interest period (≤10y). In May, July and November 2022, Achmea Bank acquired mortgage portfolios totalling EUR 0.9 billion. This is part of a strategic cooperation which started in 2021 and fits into the strategy of Achmea Bank in its role of 'liquidity provider and portfolio optimizer'. This strategy is aimed at creating flexibility for institutional investors and give them the opportunity to optimise their mortgage portfolio. A mortgage portfolio might match the profile and targeted characteristics of an investor when the portfolio is being built/ originated. But over time, the duration will shorten, and LTV's will change which might be less suited to the investor. Setting up a cooperation with Achmea Bank to periodically sell parts of the portfolio provides a way to optimise to optimise the mortgage portfolio of both the institutional investor and Achmea Bank.

Partnerships

Achmea Bank wants to diversify its revenue base and create additional value for Achmea and its brands. That is why we are actively building partnerships in order to contribute to our business model and enable further income diversification via fee generating business.

New business models and partnerships are focused on three overall themes: wealth accumulation, balance sheet enhancement and cross-domain innovations. Our wealth accumulation programme concentrates on developing new financial products and services for Achmea and Centraal Beheer customers in particular. Balance sheet enhancement concentrates on further diversifying and enhancing the consolidated statement of financial position with new niche markets and alternative assets. Cross-domain innovations are based on using our core competencies and banking licence, such as PSD2 services.

Strategic priorities

Achmea Bank has formulated the following strategic priorities:

- Robust growth of the mortgage portfolio and profitability
- Growth in the mainstream mortgage market through Centraal Beheer
- Selected growth in niche markets
- Investments in third-party credit portfolios
- Growing savings portfolio and lowering capital requirements
- Integrating ESG into strategy, governance, risk metrics and targeting ESG goals in operational practices
- Lower capital charge and increase ROE by implementing the advanced IRB model
- Continuous investment in digitisation and data management capabilities
- Developing new business models (for instance PSD2)

Identity

Our core Achmea values are passionate, contemporary, ambitious, proud and decisive. These values demonstrate how we work as Achmea Bank, how we treat each other, what we want to be and what we hold each other accountable for. They form the foundations for all our actions.

In line with our core values we develop retail banking products and services with demonstrable social added value, in which the customer's interests are central. We work in an entrepreneurial and innovative way. The impact we aim to make is in the interests of our stakeholders as well as society. We focus on activities that have impact on our strategic goals and ESG-strategy. The dialogue with our stakeholders guides our strategy and business model, and the impact we want to have on society.

Our ESG-strategy entails three target areas that describe our contribution to a sustainable living environment (Environmental), a contribution to accessibility for all in a participative society (Social) and reliable banking with integrity (Governance). Within these three target areas, in which we've formulated our own contribution to these themes, we also outlined our contribution for and with our four most important stakeholder groups: our customers, our employees, our partners and our investors. For each of these contributions we list a metric or target by which we measure our impact or successful deployment of said activity. Achmea Bank guards its reputation and integrity by ensuring that statutory requirements, regulations and ethical standards are adhered to. Compliance and risk management are strongly embedded in our operations. The Operational Risk and Compliance Department has an independent position at Achmea Bank. They continuously ensure that the products, processes and services we provide reflects what Achmea Bank aims to be: a reliable and trustworthy bank.

We ensure that we provide transparent information about our activities, services and products, and that there is transparent reporting with respect to our financial stability.

PRODUCTS

We provide a wide range of mainstream retail wealth accumulation products and mainstream and niche mortgage products and act as an investor in the Achmea Mortgages Investment Platform (AMIP).

Achmea Bank primarily provides owner-occupied residential mortgage loans to private customers under the labels Centraal Beheer and Woonfonds. Mortgage lending is secured by a contingent claim on residential properties in the Netherlands. Centraal Beheer and Woonfonds use the distributive power of intermediaries to offer mortgage loans. Centraal Beheer also offers execution-only mortgage loans online. On top of Centraal Beheer and Woonfonds Achmea Bank also invests in mortgages originated by third parties, in order to accelerate the balance sheet growth in matching mortgages. Furthermore, we own the Acier portfolio that relates to the former Staalbankiers portfolio that was acquired in 2015 and 2016 which is a closed book portfolio.

Achmea Bank provides savings and investment products (the latter as of Q2 2023) in the third and fourth pillar[2] to private customers under the Centraal Beheer label. Relevant for our customers to further support them in wealth accumulation, and relevant for our business model as a substantial part of Achmea Bank's funding consists of retail savings.

Apart from this, we are building partnerships that can contribute to our business model in the future and improve diversification through fee revenue.

RATING AGENCIES

Achmea bank has an implied public rating by S&P and Fitch. The ratings of both agencies are derived from Achmea's credit rating. The S&P rating is A-/A-2 Stable Outlook, the rating was reaffirmed in March 2023. Achmea Bank has a Fitch rating of A/F1 Stable Outlook; the rating was reaffirmed in April 2023. Both rating agencies use own methodologies for assessing Achmea Bank's capital and liquidity position. These assessments include the strategic position of the bank within Achmea, its competitive position and Dutch market conditions. The latest reports can be found on Achmea Bank's website: https://www.achmeabank.nl/investors/ratings.

[2] The first pillar is the state pension (AOW) that senior citizens receive from the Dutch government, the second is the pension that is accrued via the employer, the third is the individual pension accrued on a voluntary basis and the fourth is the accrual of (pension) capital via a person's own home.

BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Bank has control (based on the requirements of IFRS 10). The Bank controls an entity when the Bank is exposed to, or has rights to, the variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Bank and deconsolidated from the date that control ceases.

The consolidated financial statements of the Bank include the financials figures of the following companies:

- Dutch Residential Mortgage Portfolio II B.V. (shares are held by Stichting Holding DRMP II)[3]
- Securitised Residential Mortgage Portfolio I B.V. (shares are held by Stichting Holding SRMP I)
- Securitised Residential Mortgage Portfolio II B.V. (shares are held by Stichting Holding SRMP II)
- Achmea Conditional Pass-Through Covered Bond Company B.V. (shares are held by Stichting Achmea Conditional Pass-Through Covered Bond Company)
- Achmea Soft Bullet Covered Bond Company B.V. (shares are held by Stichting Achmea Soft Bullet Covered Bond Company)
- Stichting Trustee Achmea Bank
- Stichting Incasso Achmea Hypotheken

All consolidated companies have their registered office in Amsterdam except for Stichting Trustee Achmea Bank which has its registered office in The Hague.

The Special Purpose Vehicles ('SPV') Dutch Residential Mortgage Portfolio II B.V., Securitised Residential Mortgage Portfolio I B.V. and Securitised Residential Mortgage Portfolio II B.V. are companies set up by the Bank for securitisation purposes of residential mortgage loans. There are no representatives of the Bank in the boards of these entities.
Achmea Bank set up a EUR 5 billion Conditional Pass Through Covered Bond Programme in 2017 ("ACPTCB"). The shares of Achmea Conditional Pass-Through Covered Bond Company B.V. are held by Stichting Achmea Conditional Pass-Through Covered Bond Company.

In 2021 Achmea Bank set up an additional EUR 5 billion Soft Bullet Covered Bond Programme ("SBCB"). From this programme EUR 0.5 billion has been issued in October 2021, EUR 0.5 billion has been issued in May 2022. The shares of Achmea Soft Bullet Covered Bond Company B.V. are held by Stichting Achmea Soft Bullet Covered Bond Company.

The Bank has a Trust agreement with Stichting Trustee Achmea Bank. Under this Trust agreement the Bank periodically pledges mortgage receivables to Stichting Trustee Achmea Bank as collateral for liabilities of and funds entrusted to the Bank.

The Stichting Incasso Achmea Hypotheken has been set up to collect and distribute payments on the mortgage receivables to the Bank and related group companies mentioned above.

The above-mentioned companies are consolidated in accordance with the criteria of IFRS 10 Consolidated Financial Statements.

All transactions with group companies are at arm's length.

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value once control is lost.

[3] The notes redeemed on first optional redemption date December 29, 2022. This company will be liquidated in 2023.

RISK MANAGEMENT

INTRODUCTION

The Managing Board bears the ultimate responsibility to formulate and implement the bank's strategy. An important element of the bank's strategy is the policy concerning capital and financial risk management and the resulting capital and funding plan. The Managing Board is responsible for the review, approval and execution of this plan. This also means that the Managing Board has the ultimate responsibility for the set up and effective operation of the processes that enable Achmea Bank to hold sufficient capital and liquidity, considering its objectives as well as the statutory and regulatory capital and liquidity adequacy requirements. Within this scope, the Managing Board has delegated specific tasks to the Finance & Risk Committee (F&RC). The F&RC has the following subcommittees: the Asset & Liability Committee (ALCo, focus on capital, liquidity, interest rate risk on the banking book and credit risk non-retail customers), the Credit Committee (KC, focus on credit risk retail customers), the Technical Committee (TC, focus on internal models) and the Data Quality Board (DQB). Operational risk is monitored in the F&RC.

The objective of the bank's risk management framework is identifying and analysing risks in an early stage and setting and monitoring limits. Adequate internal control procedures and reporting systems, including the application of appropriate limits, are key elements in the bank's risk management.

To stronger prudential CRR/CRDIV requirements, there was also a need for a framework on recovery and resolution measures for banks to ensure that bank failures across the EU are managed in a way which avoids financial instability and minimises costs for taxpayers. Therefore, in April 2014, the European Parliament passed the Bank Recovery and Resolution Directive (BRRD) effective January 1st, 2016.

The Financial Stability Board (FSB) has published its final Total Loss Absorbing Capacity (TLAC) standard in November 2015 to be applied to global systemically important banks (G-SIB'-s). Hence TLAC does not apply for Achmea Bank.

KEY METRICS SUMMARY

IN MILLIONS OF EUROS	2022	2021
Common Equity Tier 1 (CET1)	776	779
Tier 1	776	779
Total capital	776	779
Total risk-weighted assets (RWA)	4,263	3,726
Common Equity Tier 1 ratio	18.2%	20.9%
Tier 1 ratio	18.2%	20.9%
Total capital ratio	18.2%	20.9%
Additional CET1 buffers		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%
Leverage ratio		
leverage ratio exposure	14,263	11,904
Leverage ratio	5.4%	6.5%
Liquidity Coverage Ratio		
Total HQLA	811	1,217
Total Net Cash Outflow	385	410
LCR ratio	211%	297%
Net Stable Funding Ratio		
Total Available Stable funding	11,270	10,783
Total Required Stable funding	8,657	8,135
NSFR ratio	130%	133%

Risk strategy

Achmea Bank's risk strategy supports management in the realisation of the business strategy by defining boundaries within which the bank must operate. The risk strategy focuses on:

- sound balance sheet management to control financial risks; and
- protection of Achmea Bank's identity and reputation: Achmea Bank aims to retain the confidence of its customers and other stakeholders.

The mission of the Risk Management departments is to ensure the financial and operational stability and continuity of Achmea Bank. Risk Management safeguards a continuous monitoring of the risk profile and that risk management is implemented correctly, in line with legislation and market best practices.

Risk appetite

Risk appetite is defined as the level of (financial and non-financial) risk the Bank is willing to take, given the Bank's business objectives. The risk appetite is translated into the minimum levels of liquidity and solvency and the maximum decline in results the Bank is willing to accept under normal and extreme conditions. With respect to solvency and liquidity, the Bank aims to:

- achieve a return on equity that guarantees access to the capital markets;
- maintain sufficient levels of capital and liquidity to meet internal and external requirements;
- be able to continue its business even in times of severe stress;
- avoid irresponsible concentration risks in its loan portfolio;
- maintain a sound balance sheet, including a diversified funding mix and an acceptable level of asset encumbrance; and
- have a conservative investment policy.

A further explanation of these items is provided in the following paragraphs.

The risk appetite is a general policy which is reviewed at least annually. Financial Risk Management is responsible for the Risk Appetite Statement. The statement is approved by the Asset and Liability Committee (ALCo), the Finance and Risk Committee (F&RC), the Managing Board and ultimately by the Supervisory Board.

Significant risks and developments

Achmea Bank identifies the following types of material risks:

- Solvency risk: The risk of an institution lacking the ability to absorb losses or decrease in earnings.
- Liquidity risk: the risk that the Bank, under normal circumstances as well as in times of stress, has insufficient liquid assets available in the short, medium or long term to meet its financial obligations without incurring unacceptable costs or losses. Liquidity risk also includes the situation in which the balance sheet structure develops in such a way that the bank suffers excessive exposure to a disruption of its funding sources.
- Credit risk: the risk that the bank suffers a financial loss or a material decrease in solvency, due to the fact that a borrower or counterparty does not meet the financial or other contractual obligations to the bank or due to a significant deterioration of the creditworthiness of the specific borrower or counterparty'.
- Interest rate risk on banking book: The current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, basis risk and option risk.
- Operational risk: the risk of loss arising from inadequate or failing internal processes, employees or systems, or from external events.

The integral overview of the material risks, the changes in these risks and the measures taken are regularly discussed in the ALCo, Credit Committee, Finance and Risk Committee and the Managing Board. To control the material risks, risk management processes are in place which ensure that the risks are taken within the risk appetite of the bank. In general, the Crisis Management Framework (CMF) functions as an overarching policy which provides a comprehensive overview of five CMF-related policies: Crisis Management Framework, Risk Appetite, Recovery Plan, Operational Stability Plan and Fallback Plan.

RISK MANAGEMENT ORGANISATION

Achmea Bank has two departments that have responsibility for risk management. The Balance Sheet management & Financial Risk department is responsible for the financial risks of the Bank. The Compliance & Operational Risk Management department is responsible for the non-financial risks.

Risk decision making

The CEO is responsible for the effectiveness of non-financial risk management. The CFRO is responsible for effectiveness of financial risk management. The financial risk management department is led by the senior manager Balance Sheet Management & Financial Risk Management. The non-financial risk management department, i.e. operational risk, is led by the senior manager Compliance & Operational Risk management.

In 2022 Achmea Bank separated the first and second line with respect to balance sheet steering and financial risk management (FRM). In 2023, the bank is going to amend the risk organisation by combining both second line Financial (FRM) and Non-Financial Risk management (NFRM) into a single focus area headed by a Head of Risk & Compliance. The latter being a new role, reporting to the CFRO with a direct (escalation) line to the chair of the Audit & Risk Committee (i.e. the supervisory board). Fiscal and legal functions are going to report to the CEO.

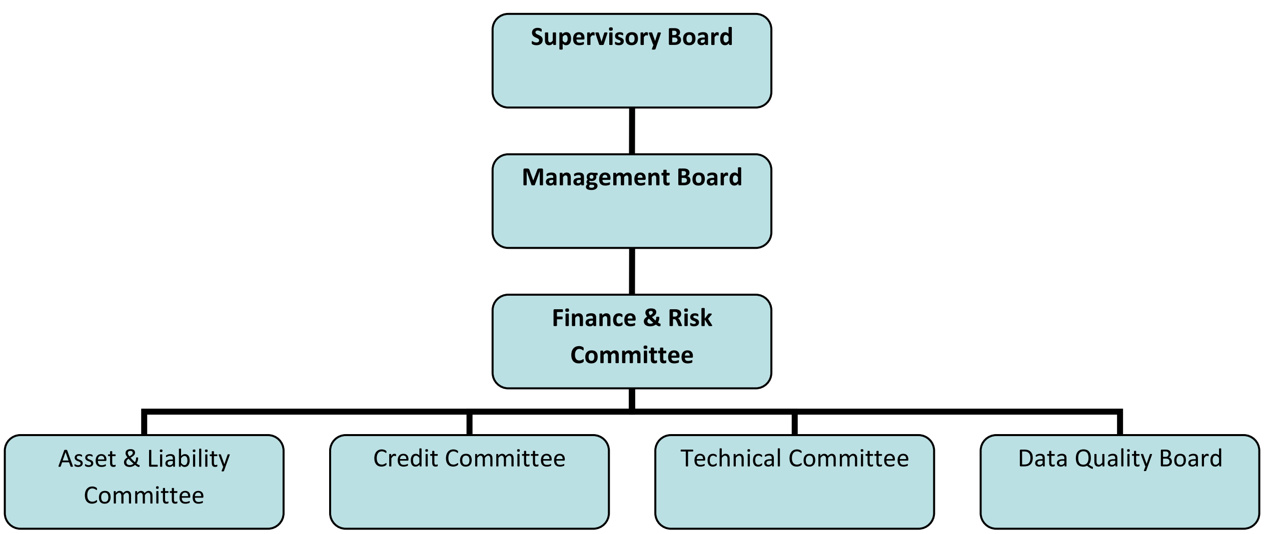
The Head of Risk & Compliance will be added to or replace the CFRO as a chair and/or member of several (risk) committees. Committees in scope are amongst others the Audit & Risk committee, the Finance & Risk committee, the ALCo, the credit committee, the technical committee and the product approval committee (PBC). The governance and by laws of respective committees will not change, neither will the accountability of statutory board members.

Risk governance and risk management committee structure

The Bank aims to achieve an optimal balance between risk and return. Adequate risk management is key in order to support and monitor the Bank's core activities.

The Managing Board is responsible for defining and executing the Bank's strategy. A crucial element of the Bank's strategy is the consistent control of liquidity risk, counterparty risk, credit risk, interest rate risk, foreign currency risk, operational risk and solvency risk.

The Managing Board is responsible for setting up effective processes that enable the Bank to hold sufficient capital and liquidity with respect to its objectives and the regulatory capital and liquidity adequacy requirements. Within this scope, the Managing Board delegated specific tasks to different committees (such as F&RC, Credit Committee and ALCo).



The Credit Committee, the Technical Committee, the Data Quality Board and the ALCo are sub-committees of the Finance & Risk Committee (F&RC). The F&RC is the ultimate decision-making body for new and amended policies regarding financial and operational risks. The F&RC is chaired by the CFRO, other members are the CEO and the senior managers of Balance Sheet Management & Financial Risk Management, Business Intelligence & Data Analytics, Control, Compliance & Operational Risk Management and Business & Operations. Control and Business Intelligence & Data Analytics have a standing invitation.

The ALCo monitors and manages all financial risks except for retail credit risk which is the focus of the Credit Committee. This comprises interest rate risk, market risk, professional counterparty risk, liquidity risk, funding risk and capital management. The ALCo bases its decisions partly on standard reports in which actual as well as forecasted figures with several (stress) scenarios are represented. In addition, the ALCo supervises compliancy with the relevant regulatory guidelines. The ALCo is chaired by the CFRO of Achmea Bank. Other members of the ALCo are senior manager Balance Sheet Management and representatives of Financial Risk Management, Balance Sheet Management, Control, (Group) Corporate Finance and (Group) Treasury.

The Credit Committee focuses on the management of credit risk on its (residential) mortgage portfolios. This means that the Credit Committee has the responsibility for approving of and advising on credit policy frameworks and the implementation of it. For monitoring of the quality of the credit portfolio including taking actions to act upon developments. Credit risk reports and reports about compliancy to the credit risk policies are sources for undertaking actions if needed, e.g. in case risk appetite indicators are negatively impacted. Also, the Credit Committee is regularly informed by the Credit Risk Control Unit (CRCU) about the outcomes and performance of the AIRB model and its various uses. The Credit Committee is chaired by the CFRO, other members of the Credit Committee (not limited) are the following department's managers: Financial Risk Management, Balance Sheet Management (which includes the CRCU), Partner Management & Development, Business & Operations, Acier and Control. The Technical Committee (TC) is responsible for the correct and timely processing of the Model Lifecycle of predominantly risk models. The TC is chaired by the senior manager of Balance Sheet Management & Financial Risk Management. Other members are the senior-managers Control and Business Intelligence & Data Analytics and the team managers of the departments Reporting, Analytics & Modelling, Balance Sheet Management and Financial Risk Management.

The Data Quality Board (DQB) is responsible for Data Governance within Achmea Bank. The DQB defines policies, roles and responsibilities with regard to data and monitors Data Quality of critical and non-critical data elements as well as the resolution of data observations and/or issues. It also has a formal role in the approval of data definitions and the traceability of data form source to consumption (data lineage). The DQB is chaired by the senior manager of Business Intelligence & Data Analytics, other members are the senior managers of Balance Sheet Management & Financial Risk Management, Control, Business & Operations, IT and a representative of Compliance & Operational risk Management.

RISK MEASUREMENT

Achmea Bank applies the Standardised approach to determine credit risk and the Basic Indicator approach to determine operational risk capital requirements. The Bank applies an internal model to determine interest rate risk in the banking book. Achmea Bank is working towards the implementation of Advanced Internal Rating-Based (AIRB) approach for its regular mortgage portfolio(s), which strengthens the bank's data driven strategy and credit risk management further and is expected to result in lower capital requirement. AIRB ensures further professionalisation in areas necessary to improve our competitiveness. See page 29 or more information regarding AIRB.

Stress testing

Banks should have the capacity to fully understand their risks and the potential impact of stressful events and circumstances on their financial condition. Stress testing is one of the techniques used to manage the risks the Bank is exposed to. Stress testing can assist in highlighting unidentified or under-assessed risk concentrations, interrelationships and their potential impact on the bank during times of stress.

Stress testing forms an integral part of risk management at Achmea Bank. Achmea Bank has drawn up a stress testing policy and several scenarios for stress testing solvency and liquidity. The stress testing policy describes the governance, the stress methodology and the application of stress testing in the capital and liquidity planning process. The risk parameters for liquidity and capital are described in the corresponding stress test policies. The same holds for sensitivity analysis and the various scenarios for stress testing.

The purpose of the policy is to outline the framework for the identification, measurement, assessment, implementation and control of stress testing of Achmea Bank, which includes appropriate internal and external reporting and consistent safeguarding compliance to relevant regulation. These documents are reviewed at least annually.

The stress testing framework consists of sensitivity analyses by risk type, scenario analysis and reverse stress testing. Through sensitivity analysis Achmea Bank will have and/or improves insight in the relevant risks Achmea Bank faces. Achmea Bank uses the following subtypes of scenario analyses: idiosyncratic and market-wide stress testing. Combining idiosyncratic and market-wide stress provides the basis for enterprise-wide stress testing and reverse stress testing.

The results of the solvency stress scenarios are reported (at least) once a year and those of the liquidity stress scenarios are reported (at least) on a quarterly basis. The time horizon of the solvency scenarios is three years. Based on the outcomes, ALCo may have to take corrective measures, when necessary, so that the risk exposures remain within the boundaries of the Bank's risk appetite.

Capital management

For the purpose of stress testing its capital position Achmea Bank uses scenario planning to define a set of four scenarios, using input from multiple disciplines within the bank. After approval of the scenarios by the F&RC, these scenarios are used to calculate the impact on the capital position at least once a year. The outcome of the stress test is reported to and discussed by the ALCo. Per 31 December 2022 the capital position remains well above the internal limit, as defined in the risk appetite, in all four scenarios. Stress testing is also used to determine the pillar II capital charges for e.g. interest rate risk in banking book.

Liquidity management

On a quarterly basis Achmea Bank determines the impact of a severe market-wide stress scenario, a severe idiosyncratic stress scenario and a combined scenario. Market-wide stress focusses on the effects of changes in the yield curve, credit ratings of counterparties and a limited access to the unsecured wholesale markets. Idiosyncratic stress is the result of a (sudden) loss of trust in the creditworthiness of Achmea Bank. The effects of idiosyncratic stress are simulated by a sudden and material outflow of retail funding ('bank run' on customer savings) and a limited access to the wholesale markets for several months.

These stress scenarios are severe and lead to a substantial outflow of liquidity, but the available liquidity buffer of Achmea Bank is in all scenarios more than sufficient to ensure business continuity in times of stress.

Recovery plan

The Bank Recovery and Resolution Directive (BRRD) requires banks to have a recovery plan operational. The recovery plan is an important management tool for the early detection and averting of a (potential) crisis. Recovery and resolution planning is aimed for banks to better plan their responses to severe crises and avoid having to rely on government bailouts. Recovery plans ensure that banks, including Achmea Bank, are prepared to restore their viability in a timely manner even in periods of severe financial stress.

The Recovery Plan of Achmea Bank provides solutions to ensure the survival of the Bank and contains a range of possible measures in times of need and is reviewed at least once a year. The recovery plan captures the measures which can be taken to recover when financial KRIs enter a yellow or red zone of the risk appetite. The primary goal of the recovery plan is preventing a default of the bank. Hence, the focus is on tackling (potential) liquidity and/or solvency crises.

Achmea Bank has an overarching Crisis Management Framework in place. For the crisis management process a distinction is made between three main situations: going concern, elevated risk & crisis and default. The business-as-usual stage corresponds with a situation that key risk (indicators) are in the green zone of the slippery slope. The situation of elevated risk and crisis corresponds with the yellow zone (elevated risk / early warning) and red zone (crisis / high risk) zone of the slippery slope.

The Bank distinguishes the following levels for its KRIs, based on the zoning of the 'slippery slope':

- Target level (**level 1**) – green zone;
- Early warning zone (**level 2**) – yellow zone;
- High risk (**level 3**) – red zone.

The key risks are monitored by the risk committees and (Sr) management on a regular basis via standard reports. The relevant committees are:

- The Finance & Risk Committee (F&RC) and Managing Board (MB). The F&RC focusses on steering of integrated risks (financial risk and non-financial risk, including compliance and internal control). On behalf of the MB, the F&RC is responsible for the setup, execution, monitoring and review of all of the bank's risk policies. The MB confirms F&RC decisions;
- The Asset & Liability Committee (ALCO). The ALCO is the MB mandated sub-committee of the F&RC that monitors and controls the bank's financial, ALM-related risks within the boundaries of its risk management framework and risk profile. The ALM-related risks monitored by ALCO are liquidity and funding risk, solvency risk, interest rate risk in the banking book (IRRBB), FX risk and professional counterparty risk;
- The Credit Committee (CC). The CC is the MB mandated sub-committee of the F&RC that monitors and controls the bank's financial risks related to its retail loan book (mortgages): retail credit risk.
- The Audit & Risk Committee (A&RC) is a sub-committee of the Supervisory Board (SB), that cannot make decisions on its own; the A&RC acts in an advisory role for the SB. A&RC members include the CEO, the CFRO, the manager B&FR, CORM and Internal Audit and representative(s) of the external accountant.

(REGULATORY) DEVELOPMENTS

Basel IV

Where the Basel III reforms focussed on the capital side of solvability, Basel IV is focussing on the determination of the required capital (risk weights of assets). This guideline will be incorporated into European law. At European level negotiating teams from Council and Parliament began trialogues on March 9th. These are expected to last until H2 2023. An agreement between Council and Parliament is expected to be reached in Q4 or 2023 Q1 2024. The 'Banking Package' is then adopted. The proposed application of the Banking Package is still January 2025.

Achmea Bank has assessed the potential impact on the risk weights of its assets of the earlier proposed Banking Package. The expected impact of the adjusted risk weights by application of the loan splitting method of Basel IV, is negligible. However, there may additional impact which will be assessed during 2023.

DNB increases the countercyclical capital buffer from 0% to 1% in 2023

In May 2022, DNB announced that it was working towards a countercyclical capital buffer (CCyB) of 2% in the coming years for all banks that have credit exposures in the Netherlands. The purpose of the CCyB (as introduced under CRD IV) is to increase the resilience of banks when cyclical risks build up build up, and to release the buffer as soon as these risks materialise. This gives banks additional room to absorb losses in bad times and supports lending to Dutch businesses and consumers. The first step of this incremental build-up of the CCyB is 1% as of May 25, 2023. Q4 2022 DNB confirmed its decision to increase the build-up of the CCyB to 1% by May 25, 2023.

Interest Rate Risk in the Banking Book

The Guidelines on interest rate risk from an institution's non-trading book business (IRRBB) and banking book credit spread risk (CSRBB) are mostly applicable from June 2023 and onwards. These guidelines specify the criteria for identification, management and mitigation by institutions of IRRBB. In addition, EBA has also published a Regulatory Technical Standards (RTS) specifying the criteria for assessing the risks arising from potential changes in interest rates that affect both the economic value of equity (EVE) and net interest income (NII) of a bank's non-trading book activities. Finally, EBA has published a RTS specifying the modelling and the assumptions regarding the supervisory scenarios for the Supervisory Outlier Test (SOT). Achmea Bank is working towards compliancy on these topics.

Capital Management

Achmea Bank must hold sufficient buffer capital to cover the (unexpected) risks arising from its operations. Pillar I of the Capital Requirements Regulation (CRR) offers regulation for calculating the minimum amount of capital that needs to be held in relation to credit risk, market risk and operational risk. Under these rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. Achmea Bank uses the standardised approach to calculate the credit risk weightings for its assets and the basic indicator approach to calculate the capital requirement for operational risk. Achmea Bank applies the CRR netting rules for its derivative positions (CRR art. 327). Applying CRR articles 351 and 352 our net FX position is below the threshold of 2% of equity, which means that capital charge for pillar I market risk is nil. The Bank's policy is to maintain a strong capital base to ensure investor, creditor and market confidence in order to sustain the future development of the business.

The Dutch Central Bank (DNB) sets overall (capital) limits based on the outcomes of its annual Supervisory Review and Evaluation Process (SREP). The Bank complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 18.2%, a Total Capital Ratio of 18.2% and a leverage ratio of 5.4% at 31 December 2022, which are well above the internally applied target for the minimum capital ratio level and leverage ratio level. For 2022 the Managing Board set the internal target for the minimum capital ratio level at SREP requirement plus the Pillar 2 Guidance plus the combined buffer requirement plus a management buffer of at least 1%.

AVAILABLE CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS	2022	2021
Share capital	18	18
Share premium reserve	506	506
Other Reserves	253	255
Deductions	-1	
Common Equity Tier 1 Capital	**776**	**779**
Lower Tier 2	–	–
Total own funds	**776**	**779**
Total risk exposure amount	**4,264**	**3,726**
Common Equity Tier 1 Capital Ratio	**18.2%**	**20.9%**
Total Capital Ratio	**18.2%**	**20.9%**
Total SREP Capital Requirement (TSCR)	**10.9%**	**10.9%**

The total regulatory capital of EUR 776 million consists mainly of core equity tier 1 and is more than sufficient to cover the total pillar 1 capital requirements of EUR 341 million[4]

Dividend

In line with Achmea Group's policy to manage excess capital at group level and given Achmea Bank's strong capital position, a dividend of EUR 42 million was paid out to its shareholder Achmea B.V. This amount includes the 2021 net distributable profit plus a small amount of the other reserves (EUR 2 million).

Achmea Bank paid out 100% of its net distributable profits generated in the previous year. In the near future (2023 onwards) Achmea Bank will, in mutual coordination with Achmea Group, introduce a bank specific capital policy to manage (excess) capital in a more efficient manner. This will be outlined with Achmea Group's Capital Adequacy Policy (CAP) which is applicable to Achmea Bank. Achmea Bank needs to have sufficient capital to cover its risks and to comply with internal and external

[4] Sources based to regulatory scope: reference to balance sheet on page 40. Overview of RWA can be found in the appendix.

requirements, on the other hand the bank tries to limit the amount of unused freely available capital for reasons of costs efficiency. The future dividend upstream methodology can therefore deviate from the current methodology.

Internal capital adequacy requirements

The Bank has implemented internal processes to align the required capital to the risks the Bank faces. These processes are described in the Internal Capital & Liquidity Adequacy Assessment Process (ICLAAP) manual. Among other things, the manual describes the governance structure, procedures, assumptions and methods used to determine the required capital. The Internal Capital Adequacy Assessment Process (ICAAP) safeguards that the Bank is able to meet and maintain both the current and future capital adequacy of the Bank on a continuous basis.

Capital contingency

The purpose of capital contingency is to ensure that appropriate measures are taken in case of a (imminent) solvency deficit. The Bank monitors its solvency position on a quarterly basis. However, the Bank recognises that unexpected internal or external events may adversely affect the capital position for a shorter or longer period and that this may jeopardise the continuity of the Bank. It is essential to be able to obtain sufficient capital at all times, not only in a going-concern situation but also in stress situations.

REGULATORY CAPITAL REQUIREMENTS

Achmea Bank applies the standardised and basic indicator approaches for calculating the Regulatory Capital requirements under Basel II and CRR (CRD IV) for credit risk and operational risk. Achmea Bank's market risk is related to currency risk. Articles 351 and 352 of the CRR include the capital requirements for currency risk. Article 351 contains the provision for the materiality threshold and the weighting for the pillar 1 capital requirement: if the total net position exceeds 2% of the total equity, the bank must hold capital of 8% of the net position. Since the net position does not exceed the 2% threshold, regulatory capital required for market risk is set at zero.

QUALIFYING CAPITAL

Achmea Bank's capital consists of tier 1. Tier 1 capital consists of three components: paid-up capital, reserves and hybrid capital. Achmea Bank currently does not hold any hybrid tier 1 capital. The reserves consist of the share premium reserve and the retained profits. The deductions mainly relate to fair value gains and losses arising from the institution's own credit risk related to derivative liabilities and prudential valuation.

The available qualifying capital of EUR 776 million that the Bank retains to compensate for potential losses, is well above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2022 Common Equity Tier 1 capital decreased by EUR 3 million from EUR 779 million to EUR 776 million, mainly due to the release of a small amount of other reserves. As the Bank does not hold any additional tier 1 instruments, tier 1 capital equals its core equity tier 1 capital.

Risk weighted assets

The Bank reports the risk weighted exposure amounts in line with the CRR II and CRD V. In 2022 the total risk exposure amount (TREA) increased with EUR 538 million from EUR 3.726 million to EUR 4.264 million, mainly due to an increase in the mortgage portfolio and outstanding mortgage offers.

CAPITAL RATIOS

Total capital ratio (TCR) and Common Equity Tier I Capital Ratio (CET-1)

Both TCR and CET-1 decreased to 18.2% (2021: 20.9%). The decrease is mainly due to higher mortgage origination. Since Total Capital is equal to Common Equity Tier 1 Capital, there is no difference between these ratios.

Total SREP capital ratio (TSCR)

The TSCR is the minimum capital level that the Bank has to maintain, which is determined by DNB and results from the bi-annual Supervisory Review and Evaluation Process (SREP). The TSCR is a measure of the Bank's minimum required capital expressed as a percentage of its risk exposure amount. The minimum required capital consists of pillar I and pillar II capital charges and any add-ons imposed by DNB. The total SREP capital ratio in 2022 is 10.9% (2021: 10.9%). The current (fully phased in) capital ratios and targets are higher than the minimum capital requirements. Achmea Bank’s ambition is to maintain a strong capital position.

Leverage ratio

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by the institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank complies with the internal minimum requirement for 2022 of 3.0% and the (expected future) external minimum requirements; the LR at 31 December 2022 was 5.4% (2021: 6.5%). The LR decreased during 2022 due to growth of its balance sheet more specifically it’s mortgage portfolio.

To manage the risk of excessive leverage the LR is reported quarterly to the ALCo and includes a three-year forecast. This ensures that a potential decline in the LR is detected early, and corrective management actions can be taken in a timely manner.

Minimum requirement for own funds and Eligible Liabilities (MREL)

Pursuant to the Single Resolution Mechanism (SRM) Regulation, on 17 December 2021 De Nederlandsche Bank (DNB) in its capacity of National Resolution Authority (NRA) set the Minimum Requirement for own funds and Eligible Liabilities (MREL) for Achmea Bank at 10.9% of the Total Risk Exposure Amount (MREL-TREA) and at 3% of the Total Exposure Measure (MREL-TEM). In December 2022 DNB reconfirmed the MREL. At year-end 2022 the amount of available own funds was EUR 776 million, which adequately covers both requirements of EUR 405 million (MREL-TREA) and EUR 357 million (MREL-TEM).

LIQUIDITY MANAGEMENT

Liquidity risk includes both the risk that Achmea Bank is not able to attract funding with appropriate maturities or at appropriate rates and the risk that Achmea Bank fails to liquidate assets at a reasonable price or within a reasonable period of time. Controlling the maturity mismatch of assets and liabilities is a fundamental element of Achmea Bank's liquidity risk management.

Liquidity risk consists of two basic types of risk:

- Market liquidity risk: The risk that, because of a crisis in the financial markets, Achmea Bank cannot liquidate its assets in a short period of time and at acceptable costs.
- Funding liquidity risk: The possibility that, over a specific horizon, Achmea Bank will become unable to (re)finance itself in order to meet its obligations. A typical example of this type of risk is a 'bank run'.

Internal liquidity adequacy process and requirements

The day-to-day cash management is executed through Achmea's central Treasury department, which monitors the Bank's daily cash position. In the Risk appetite Achmea Bank has defined a dynamic limit and early warning for the cash position linked to the DNB cash reserve requirement. Liquidity risk monitoring and reporting, which include actual and forecasted figures, is the responsibility of the Balance Sheet Management. Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis.

The bank has implemented internal processes to monitor and manage the liquidity risk of the bank. The objective is to manage liquidity risk within the bank to prevent that the bank can no longer meet its obligations. These processes are included in the Internal Liquidity Adequacy Assessment Process (ILAAP) manual. Amongst others, this manual describes the governance structure, the procedures, the assumptions and the methods used to determine the minimum level of liquidity. The objective of ILAAP is to assess liquidity risks and maintain an adequate level of current and future liquidity on a continuous basis.

Liquidity and funding contingency

The Bank has a Liquidity Contingency Plan (LCP) available in case of a liquidity stress event. The LCP is part of Achmea's Recovery Plan. The Recovery Plan provides solutions to ensure the survival of the Bank for at least six months of severe liquidity stress. The recovery plan contains a range of possible measures to generate cash liquidity in times of need and is reviewed at least once a year.

RISK MEASUREMENT

Liquidity buffer and liquidity ratios

As part of adequate liquidity management, it is necessary for banks to have a sufficient liquidity buffer to sustain unforeseen liquidity stress situations. The Bank has a strong liquidity stress testing framework which includes an idiosyncratic, a market-wide, a combined stress scenario and reverse stress testing. Some of the most important drivers of liquidity stress are:

- A material withdrawal of retail (on demand) savings: "bank run";
- A large outflow of cash due to collateral calls on (interest rate) derivatives in an adverse interest rate scenario; and
- No access to the unsecured wholesale markets for a prolonged period.

In 2015 the Bank entered into an Asset Switch agreement with Achmea Pensioen en Leven N.V. (AP&L) in order to improve its liquidity position. The Bank legally (i.e. not commercially/economically) exchanged mortgages for government bonds held by AP&L at a market value ratio of 110:100. Due to the higher liquidity treatment of government bonds, this enhances the liquidity position of the Bank and provides more flexibility in the timing of new funding transactions in connection with managing the liquidity and the survival period of the Bank. The maximum amount of the Asset Switch is EUR 1.0 billion, with a current target amount of EUR 0.5 billion. At year-end 2022 EUR 682 million (2021: EUR 590 million) of mortgages at nominal value were exchanged for EUR 458 million (2021: EUR 479 million) of government bonds (market value).

The Bank's liquidity buffer mainly consists of on-demand Central Bank deposits and a portfolio of unencumbered high-quality liquid assets, including the government bonds under the Asset Switch. At year-end the Bank held approximately EUR 774 million cash available on demand at the Dutch Central Bank (excluding the mandatory cash reserve). Furthermore, the Bank had a portfolio of liquid debt securities amounting to EUR 1,038 million at year-end 2021 (2021: EUR 2,135 million), comprising of unencumbered retained RMBS notes (A-notes SRMP-I and A-notes SRMP-II) and Dutch government bonds.

The day-to-day cash management is the responsibility of Achmea Treasury, which monitors the daily minimum cash position. Liquidity risk monitoring and reporting, which includes actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defence). Furthermore, ALCo monitors Achmea Bank's liquidity risks on a monthly basis. The Bank is required to hold a sufficient liquidity buffer that ensures a Survival Period of at least six months.

The bank manages the LCR is managed in the form of an LCR surplus (i.e. HQLA minus net cash outflow) and the internal limit is set at a surplus of EUR 10 million for 2022. The NSFR aims to ensure that long-term assets are financed with stable, longer-term funding. Achmea Bank has set its internal minimum target for the NSFR at 105% for 2022. Both limits are higher than the minimum external requirements. The Bank complies with all external and internal minimum requirements in 2022. At year-end 2021 the LCR was 211% (2021: 297%) and the NSFR was 130% (2021: 133%).

FUNDING STRATEGY

The Bank has a wide range of funding sources to finance its activities and a well-diversified funding mix which comprises of retail funding (savings), unsecured wholesale funding and secured wholesale funding. In addition, the Bank monitors the maturity ladder of its wholesale funding instruments to prevent and mitigate potential refinancing risks in the future.

UNSECURED WHOLESALE FUNDING

Unsecured EMTN Programme

Since 2012 the Bank has a EUR 10 billion Unsecured European Medium Term Note programme. The total outstanding amount under the Programme was EUR 0.6 billion at year-end 2022 (2021: EUR 1.4 billion), including CHF denominated loans for an amount of CHF 0.3 billion (2021: CHF 0.4 billion).

French commercial paper programme

As of 2013 the Bank has a French commercial paper programme of EUR 1.5 billion. With this programme the Bank is able to access the international money markets for its short-term funding needs. The total outstanding amount under the programme was EUR 0.6 billion as at year-end 2022 (2021: EUR 0.5 billion).

Other Unsecured wholesale funding

The Bank has deposits with financial and non-financial institutions. Total outstanding amount EUR 0.2 billion (2021: EUR 0.1 billion).

Retail funding

Achmea Bank attracts consumer savings under Achmea's Centraal Beheer label. The total savings portfolio consists of available on demand accounts of EUR 4.4 billion (2021: EUR 3.7 billion), deposits with agreed maturity of EUR 0.6 billion (2021: EUR 0.7 billion), saving deposits linked to mortgages of EUR 0.7 billion (2021: EUR 0.7 billion) and pension savings of EUR 2.2 billion (2021: EUR 2.2 billion).

Transfer of Parts

In December 2019, Achmea Bank entered into a Transfer of Parts agreement with Achmea Pensioen- en Levensverzekeringen N.V. The purpose of this agreement is to reduce the credit risk of Achmea Pensioen- en Levensverzekeringen N.V. on Achmea Bank related to the saving deposits which are linked to mortgages of Achmea Bank. Within this agreement, only the legal ownership of the mortgages for the size of the saving deposits is transferred to Achmea Pensioen- en Levensverzekeringen N.V. and therefore continues to be recognised at the consolidated statement of financial position Achmea Bank. As per December 2022 the total amount of transferred mortgages is EUR 0.1 billion (2021: EUR 0.3 billion).

Deposits from Banks, including Central Bank

This category consists of cash collateral received on derivative exposures (EUR 0.2 billion), money market loans (EUR 0.2 billion), ECB main refinancing operations (EUR 0.3 billion) and repos (EUR 0.4 billion).

Secured wholesale funding

Covered Bond

In 2021 Achmea Bank has set up a EUR 5 billion Soft Bullet Covered Bond (SBCB) Programme in addition to its conditional pass-through covered bond (CPTCB) programme which was established in 2017. In May 2022 the Bank issued a EUR 0.5 billion 7 years SBCB. The total outstanding amount of covered bond at year-end 2022 was EUR 2.5 billion (2021: EUR 2.0 billion).

The bonds issued under both programmes are backed by high quality Dutch residential mortgage loans. Investors benefit from a so-called 'double recourse' which means that in the event of a default of the Bank an investor has recourse on the bank and on the underlying mortgage portfolio.

The programmes are UCITS eligible and Dutch Central Bank (DNB) registered. All issuances under these programmes are compliant with article 129 of CRR and AAA-rated.

Securitisations

After the redemption of DRMP II on the first optional redemption date in December 2022 the Bank no longer has any securitisations of residential mortgages (RMBS) outstanding externally. This excludes retained notes for an amount of EUR 1.5 billion (2021: EUR 1.9 billion). There are no RMBS notes held by other Achmea entities. The director of these companies is Intertrust Management B.V.

For RMBS, the Bank assigns a portfolio of mortgage receivables to a special purpose vehicle (SPV) which issue notes. The SPV uses the proceeds of the notes to finance the assigned mortgage receivables and uses the interest from the mortgage receivables to pay the interest on the notes.

Trustee

The Bank has entered into a Trust Agreement under which it periodically pledges mortgage receivables to Stichting Trustee Achmea Bank as collateral for some of its banking liabilities, such as private loans. In the event of default by the Bank, investors can recover their investments from the pledged mortgage receivables. The private loans covered by the Trustee guarantee amount to EUR 41 million (2021: EUR 48 million).

ASSET ENCUMBRANCE (RATIO)

EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance sheet or off-balance sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2022, EUR 4.3 billion of total assets were encumbered, resulting in an asset encumbrance ratio per year-end 2022 of 32.6% (2021: 26.6%)[5].

[5] Note that as a result of regulatory reporting requirements the Asset Switch has a strong negative impact on the asset encumbrance ratio due to nominator/denominator effects, whereas in practice the bank only swaps illiquid collateral for highly liquid collateral. Without the Asset Switch the asset encumbrance ratio would amount to 26.1% per year end 2022.

CREDIT RISK

CREDIT RISK MANAGEMENT

The scope of this chapter includes all positions subject to the credit risk framework, excluding all positions subject to the securitisation framework (Securitisation chapter).

Within Achmea Bank, credit risk is defined as 'the risk that the bank suffers a financial loss or a material decrease in solvency, due to the fact that a borrower or counterparty does not meet the financial or other contractual obligations to the bank or due to a significant deterioration of the creditworthiness of the specific borrower or counterparty'. To cover credit risk, Achmea Bank applies forward looking IFRS9 Expected Credit Loss (ECL) models to calculate an impairment/loan-loss provision.

CREDIT PORTFOLIO

The credit portfolio consists of loans and advances to banks, public sector, retail customers, in the banking book and derivatives.

Achmea Bank's mortgages and consumer credits activities are concentrated in the Netherlands, except for a small number of Acier loans. Achmea Bank's exposures to banks, e.g. derivatives, are both to domestic and foreign counterparties. No geographical segmentation is applied.

Credit risk consists of risks relating to mortgage lending, consumer credits and risks relating to counterparties in funding transactions (e.g. swaps). Achmea Bank's total credit portfolio is categorised by source of risk:

- Retail mortgage lending and consumers credit (retail credit risk);
- Professional counterparties (counterparty credit risk);
- Other credit risks and contingent liabilities and commitments.

Private sector risks are risks related to the mortgage portfolio and risks on the consumer credit portfolio. Risks of professional counterparties are related to treasury exposures. Risks on other items are related to other assets, prepayments and accrued income. Contingent liabilities and commitments are irrevocable facilities which may increase credit risk. These categories are explained in the next paragraphs.

Retail mortgage lending

Achmea Bank's policy on retail credit risk revolves primarily around counterparty risks associated with residential mortgage loans. Appropriate underwriting criteria for new clients and active credit risk management for existing clients safeguard the quality of the mortgage loan portfolio.

Regular mortgage portfolio

The regular mortgage portfolio consists of an own label (Centraal Beheer/Woonfonds) mortgages (EUR 8.8 billion), a.s.r. mortgages (EUR 2.3 billion), Obvion mortgages (EUR 0.3 billion) and Dynamic Credit mortgages (0.3 billion). The regular Achmea Bank mortgage portfolio consists of residential, owner-occupied property loans and a proposition which allows buy-to-let. Collateral for these loans consists of residential property, pledged life insurance policies or savings and security accounts.

Acier loan portfolio

The Acier loan portfolio is a run-off portfolio and differs in characteristics from the Regular mortgage portfolio. The principal amount of Acier loans is significantly higher than average mortgage loans in the Netherlands, making the exposure risk on a single client higher. Also, the mortgages securing the mortgage loans may be vested on residential and/or commercial properties with higher collateral values and/or properties that may be more price sensitive and less marketable. A large number of loans have a variable interest rate and part of the loans is denominated in Swiss Francs (CHF).

In 2022 the Acier loan portfolio decreased with EUR 41 million to EUR 639 million at year-end (2021: EUR 680 million). As of December 2022 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 12.5 million

(2021: EUR 7.4 million), which is an increase of EUR 5.1 million compared to December 2021. Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. The total amount of claims submitted to this guarantee is recognised on the consolidated statement of financial position as a receivable on Achmea B.V. The total amount of claims submitted to this guarantee is recognised in the consolidated statement of financial position as a receivable on Achmea B.V. In 2022 there is EUR 4.8 million claimed on the guarantee (2021: EUR 0) consisting of ECL additions exceeding the threshold of 20 basis points of the average gross carrying amount of the Acier portfolio.

Consumer credit is credit used by the borrower to finance consumer expenditure. The main forms of consumer credit are revolving credit facilities and personal loans. Achmea Bank has been active in consumer credit via various distribution channels until mid-2009. No new loans have been granted since then. A substantial part of the revolving credit and personal loan portfolio was sold to a third party in December 2010. A small remaining part of the revolving credit and personal loan portfolio is still being managed by Achmea Bank (EUR 12 million) within the Acier department. Part of the Acier portfolio also consists of loans with an exposure to non-households (corporations). Achmea Bank defines these loans as corporate credit (EUR 39 million).

Professional counterparties

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and collateral-management. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant group policy. To manage counterparty risk, Achmea Bank imposes individual counterparty limits on both exposure and maturity. The individual limits are approved by ALCo. Exposures are managed by the treasury department and are being monitored on a daily basis by Balance Sheet Management.

Contingent liabilities, commitments and other risks

Liabilities due to off balance irrevocable facilities which may lead to an actual credit risk exposure, are construction deposits, undrawn credit facilities of credit mortgages and loan commitments. Other credit risks include other receivables.

Legal proceedings

In the course of 2022 several instances of legal proceedings are pending or initiated against the bank. However, based on legal advice, the Managing Board does not expect the outcome of the various proceedings to have a material effect on the company's financial position.

On 14 June 2022, Achmea Bank N.V., like several other Dutch banks, received a letter from "Stichting Compensatie Zwitserse Frank Leningen" (CZFL) in which the latter stated that the foundation wants to initiate legal proceedings on behalf of several clients with regard to the mortgages provided in Swiss Francs and breach of the duty of care. According to our internal assessment, there is no breach of the duty of care. Achmea feels supported by previous rulings by judges and Kifid. To date, no formal claim has been made and given our assessment of any potential complaint or claim on the grounds stated in CZFL's letter, no provision has been made.

Guarantee

Achmea B.V. has issued a capped guarantee to Achmea Bank to cover credit risk and legal claims in connection with the acquired loan activities of Staalbankiers (2015 and 2016). In 2022 the maximum guaranteed amount has been adjusted from EUR 350 million to EUR 280 million. This decrease is in line with the lower risk profile of the Acier portfolio. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 2022, the total amount claimed by Achmea Bank is EUR 25 million (2021: EUR 20 million).

Contractual obligations

At year-end 2022 the Bank had contractual obligations for the coming year with Achmea Group companies amounting to EUR 55.9 million (2021: EUR 51.4 million), primarily in connection with outsourcing of the servicing of the regular mortgage portfolio by Syntrus Achmea Real Estate & Finance, ICT-related contracts and with Centraal Beheer for distribution.

The Bank had external contractual obligations for the coming year amounting to EUR 3.2 million (2021: EUR 2.6 million) for the servicing of the saving portfolio, EUR 4.8 million in contractual obligations for the servicing of the a.s.r. mortgage portfolio (2021: EUR 4.3 million), EUR 1.5 million in contractual obligations for the servicing of the Obvion mortgage portfolio (2021: EUR

1.8 million) and EUR 0.7 million in contractual obligations for the servicing of the Dynamic Credit mortgage portfolio. (2021: EUR 0.8 million).

Irrevocable facilities

This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 663 million (2021: EUR 270 million), EUR 75 million related of newly originated mortgages from a.s.r., construction accounts of EUR 119 million (2021: EUR 41 million) and undrawn credit facilities of credit mortgages of EUR 20 million (2021: EUR 16 million).

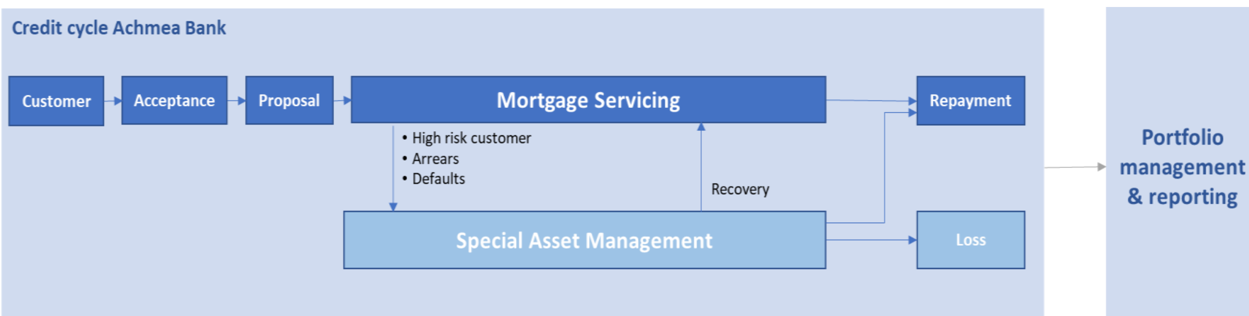
Post foreclosure claim

Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 35 million (2021: EUR 38 million). The expected net recovery of this exposure is limited.

MORTGAGE PORTFOLIO

Credit committee

The Credit Committee monitors the risk profile (policies, procedures, products) and the mortgage portfolios' credit risk by means of the credit cycle. The credit cycle, as illustrated below, is the foundation on which credit risk management forms its objective and independent judgement about the overall credit risk profile.



Credit policy

Achmea Bank's policy on credit risk is mainly focused on counterparty risks associated with residential mortgage loans. Appropriate underwriting criteria for new clients and active credit risk management for existing clients safeguard the quality of the mortgage loan portfolio. Achmea Bank establishes (underwriting) policy frameworks based on legislation, Risk Appetite and credit risk monitoring. Financial Risk Management is responsible for the review of the updated and/or revised policies as part of their 2nd line of defence role. Credit risk is monitored by the Credit Committee.

Credit approval

The underwriting policy sets the parameters to approve mortgage applications. Loan applications which do not meet the underwriting criteria can be discussed via a special procedure for 'explain' applications. This procedure allows the Bank to approve 'explain' applications under increased scrutiny and by means of the so called 4-eye principle. This is part of the comply or explain process. Financial Risk Management monitors the 'explain' applications quarterly.

As of 2021 Achmea also uses an application score card based on the AIRB model for credit approvals (excluding acquired mortgages from third parties). Based on internal and external data a score determines if there is an increased risk for a specific credit application. The outcome can be overruled via the special procedure for 'explain' applications.

The Financial Risk Management department monitors the credit risk of the portfolio as part of their 2nd line of defence role. When actions are needed, the Financial Risk Management department will advise the Credit Committee and propose possible action(s). Possible actions are adjustment/review of the policies, such as Product Approval and Review Process (PARP), Underwriting policy and Credit Risk policy.

Arrears management

Stringent procedures are in place to monitor payment arrears. Borrowers that fail to pay the scheduled payment will be approached (by telephone) by the Special Asset Management department within 15 days. The AIRB model is used to identify customers with a high risk and are approached first. If regular customer contact fails, a physical house call will be made within 35 days in arrears. In case of no contact and 3 sent reminders, Special Asset Management treatment is started at 2 months in arrears at latest. Within the Special Asset Management department, the AIRB model is also used to prioritise further treatment and determine viable measures to limit any expected losses.

In case of foreclosure or forced sale and a residual debt has arisen, the Special Asset Management department realises the collateral sale and any remainder debt will be written off. Any income from residual debt is recognised in the income statement, as part of the other income.

Credit risk monitoring also takes place for the acquired portfolios. These mortgages portfolios are comparable with the bank's own portfolio in terms of credit risk. Arrears Management of the acquired portfolios is outsourced to the parties that have issued the mortgages. Achmea Bank receives ISAE 3402 reports for all respective organisations. Due to the specific nature of the Acier portfolio a specialised account team and special asset management team is in place for the treatment and foreclosures.

Definition of default

In 2021 Achmea Bank updated the Definition of Default, Forbearance and Non-performing exposure policy and amended the definition of default. This definition is based on the standard as laid down in the latest Guidelines of EBA (EBA GL Default definition (EBA-GL-2016-07) (2016)). This Definition of Default is also used in the calculation of the IFRS 9 provision.

A retail mortgage facility is in default when at least one of the following criteria is met:

- A facility is materially past due for more than 90 days;
- The obligor of the facility is unlikely to pay.

An obligor of an 'other credit risk exposure' is in default when at least one of the following criteria is met:

- The obligor is materially past due for more than 90 days;
- The obligor is unlikely to pay.

The frequency of assessing the default criteria will be done on a daily basis and is triggered if:

- Any amounts have not been paid at the date they were due;
- Credit ratings are downgraded to below investment grade (<BBB).

Achmea Bank applies the following unlikely to pay (UtP) indicators:

- Distressed restructuring;
- Bankruptcy;
- Fraud;
- Insufficient sources of recurring income;
- Seizure;
- Sale (by the Special Asset Management department or with a residual debt);
- A non performing forborne exposure in 12-month probation period.

A facility only recovers from the default status once the arrears have been repaid in full or the UtP triggers have lapsed and at least three-month probation period has expired. In case of defaults with forbearance measures the probation period is 12 months from the start of the measure. All default exposures are also non performing exposures and are classified as credit impaired and included in stage 3.

Forbearance

Forbearance measures may be applied in situations where the Bank considers the borrower unable to meet the terms and conditions of the contract due to financial difficulties. Depending on the nature of those difficulties, Achmea Bank may decide to modify the terms and conditions of the contract to maximise collection opportunities and minimise the risk of default.

Forbearance is the temporary or structural modification of the terms and conditions. Some examples of the forbearance measures Achmea Bank applies:

- temporary payment holidays longer than 6 months;
- temporary lowering of interest rate;
- restructuring and/or extension of the loan;
- interest or cost forgiveness.

The registration of the forbearance measures and default triggers of the acquired portfolios takes place at the issuing party. The relevant information of the portfolios is added to the data warehouse of Achmea Bank.

As of 31 December 2022, the forborne exposure amounted to EUR 76 million (2021: EUR 111 million), of which EUR 46 million relates to performing forborne exposures (2021: EUR 71 million). The remaining part of EUR 30 million (2021: EUR 40 million) relates to non-performing forborne exposures.

Impairment and past due loans

In 2016 and 2017 Achmea Bank worked on the adoption of the IFRS 9 regulation replacing IAS 39. One of the three aspects of the new regulation is a different approach towards impairments and the related provisioning. One of the goals of International Accounting Standards Board (IASB) is to harmonise Finance and Risk with a more model driven approach for the provisions using the so-called Expected Credit Losses.

Expected credit loss (ECL) is a forward-looking measure. The forward-looking aspect is included to make sure that future losses are accounted for in an early stage to avoid future ‘too little, too late’ situations.

The main responsibility of the ECL models is delegated to Control for its monthly reporting process. The ECL models are also used by Credit Risk Management and by the Balance sheet &Financial Risk department for stress testing.

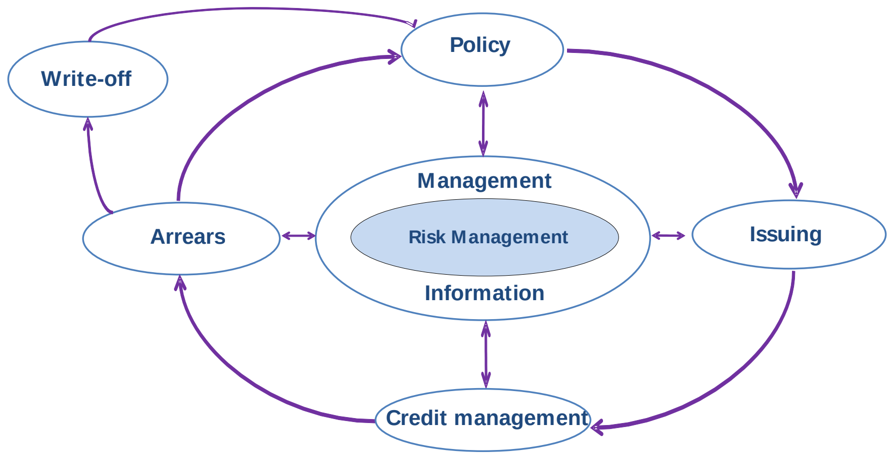
The ECL models for the regular and Acier portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation and have proven fit for purpose. The model development will continue to follow the model lifecycle and the first in-depth review (which can start changes or redevelopment) has been performed.

For 2022 the total write-offs for the regular retail portfolio amounted EUR 0.0 million (2021: EUR 0.3 million). For the Acier portfolio the write offs amounted EUR 1.2 million (2021: EUR 4.7 million). Achmea Bank has a (capped) guarantee of Achmea B.V. to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited.

CREDIT RISK MEASUREMENT

Credit risk measurement framework

Credit risk is managed by means of the ‘credit cycle’. The credit cycle monitors for each part of the mortgage process (policies, underwriting, credit management, arrears management, write offs and management information in general) if credit risk is under control. If not, risk mitigating solutions are discussed in the credit committee. In addition, IFRS9 models are being used for actively identifying high risk clients. An example of the IFRS9 use case is applying the underlying models for pre-emptive arrears management.



Credit risk reporting

Financial Risk Management compiles monthly reports for both the regular and the Acier portfolios. The reports focus on the developments in the credit portfolio and are discussed in the Credit Committee. The report structure is based on the credit cycle and provides insight into the origination of new mortgages, the portfolio as a whole, collections and write-off and links these subjects to policy.

The Control department compiles a monthly financial report that includes impairments and provisions. This report is discussed in meetings of the management board.

For capital calculation requirements Achmea Bank applies the standardised approach for its credit risk portfolio according to CRR (CRD IV).

Advanced Internal Rating Based (AIRB) approach

Achmea Bank currently operates under the Standardised Approach (SA), the Basel II methodology applied for calculating credit risk and determining the capital requirement. An alternative to calculating credit risk and thus the capital requirement is the Advanced Internal Rating-Based (AIRB) approach. In the AIRB approach, banks use proprietary models (in accordance with legislation and regulations from the European Commission and DNB and guidelines from EBA / ECB / DNB) to calculate credit risk and determine the capital requirement. This is a fundamentally different way of reporting, calculating and operating. AIRB requires strong professionalisation of the bank, full compliance with the AIRB laws and regulations and a minimum of three years of internal experience with AIRB models.

Achmea Bank is working towards the application of Advanced Internal Rating Based (AIRB) models. This strengthens the bank's credit risk management and data driven strategy further and is expected to result in lower capital requirements. The application has taken place and DNB reviewed the AIRB models of the Bank in 2nd half of 2022. Results are expected in the course of 2023.

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and the Bank's cash management. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant Achmea group policy. To manage counterparty risk, the Bank imposes individual counterparty limits on both exposure and maturity. These limits are approved by the ALCo. Exposure is monitored on a daily basis by Balance Sheet Management (1st line) and Financial Risk Management (2nd line). The credit risk exposure to professional counterparties is managed and monitored by the ALCo.

Credit risk measurement

The Bank uses Credit Support Annexes (CSA) to reduce the risk exposures on derivative counterparties by means of (cash) collateral; for new over-the-counter derivatives, e.g. plain vanilla interest rate swaps- the European Market Infrastructure Regulation (EMIR) applies. No impairments on counterparty positions occurred in 2022. Furthermore, as of 31 December there are no concentrations of counterparty credit risk above the internally applied concentration limit.

The total net exposure mainly consists of the exposures on the top 10 professional counterparties (financial institutions). As at year-end the total net exposure for the top 10 amounted to EUR 517 million (2021: EUR 338 million) and mainly concern direct debit accounts related to mortgage repayments and the total fair value of the derivatives versus the collateral positions. As at year-end of 2022 the net exposure for the derivative exposures amounted to EUR 182 million (2021: EUR 19 million) and consisted of the total fair value of the derivatives versus the collateral position, initial margin for central clearing.

The credit risk on the other financial assets of the Bank (investments and derivatives) are managed by means of the external credit ratings of the counterparties (Achmea middle rating: Standard & Poor's, Moody's, DBRS and Fitch):

The lowest rating at year-end 2022 was BBB (EUR 5.4 million) (year-end 2021: rating BBB, EUR 12.3 million). The unrated exposure consists of the exposure to London Clearing House Limited and EUREX Clearing AG. Most of the collateral positions are included in the category loans and advances to banks.

At year-end 2022 part of the collateral position (EUR 196 million) (2021: EUR 6 million) is reported as liability and recognised under deposits from banks (credit rating A).

Qualifying central counterparties

Following regulatory requirements, Achmea Bank clears all new derivatives (IRS) through a qualifying central counterparty (QCCP), via its clearing members. For QCCPs appropriate limits are set in the Bank's counterparty risk policy. Achmea Bank's exposure to QCCPs at year-end 2022 amounted to EUR 254 million (2021: 29 million).

Credit risk reporting

Exposures to professional counterparties are monitored by the treasury department (1st line) and Balance Sheet & Financial Risk Management (2nd line). Balance Sheet & Financial Risk Management is responsible for daily exposure reports to involved senior management of Achmea Bank. The daily report covers e.g., the net exposures and the corresponding limits of the individual professional counterparties.

Additional contractual obligations in case of a rating downgrade

In the event of a rating downgrade of a specific counterparty, Achmea bank could be required to post additional collateral. These potential collateral requirements are connected to the rating triggers in Back-to-Back swap arrangements of the securitisation transactions of Achmea Bank. In case of a rating downgrade of three notches for all swap counterparties the additional collateral to be posted was EUR 16 million at year-end 2022.

SECURITISATIONS

RETAINED SECURITISATION

Achmea Bank uses securitisation (RMBS) as part of its funding mix. At year-end 2022 there are two outstanding transactions: SRMP I and SRMP II. For SRMP I and SRMP II, all notes are retained by Achmea Bank. The class A notes of SRMP I and SRMP II are ECB eligible and can be used as collateral for e.g. central bank funding. The total amount was EUR 1,275 million (SRMP I and II A notes) as per 31 December 2022.

An amount of liquidity risk in securitisation transactions is retained by Achmea Bank by acting as liquidity facility provider in some of its retained securitisation transactions. Achmea Bank does not act as swap counterparty in any of its own securitisations. Contingent liquidity risk in securitisation swaps arises from the rating triggers related to the back-to-back swaps as part of the securitisation structure.

REGULATORY CAPITAL APPROACH

For the currently outstanding exposures Significant Risk Transfer (SRT) is not applicable therefore regulatory capital is determined by the total risk exposure amount (TREA) for the underlying assets as if these assets where not securitised (‘look-through’). With this method the issuance of a securitisation does not change the required capital amount for the originator.

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of loss arising from inadequate or failing internal processes, employees or systems, or from external events. Compliance risk is in scope of operational risk from a classification perspective, as this risk is not regarded as a separate event. However, as regulatory supervisors expect specific management and reporting on compliance risk, Achmea Bank ensures that identified compliance risks are earmarked as such. Operational risk events can lead to a financial loss for Achmea Bank and our customers and may also harm our reputation. Therefore, it is important to have a timely and adequate understanding of the risks we run, respond to these risks and implement effective control measures.

RISK PROFILE

Achmea Bank has categorised operational risk into four main categories, i.e. business/process risk, compliance risk, IT risk and reporting risk. The main categories are divided further into risk themes which are also mapped to the operational risk categories as defined in the Basel regulations. In the section below, we describe the various subcategories of operational risk and the way they are dealt with within Achmea Bank.

Information security and cybercrime

The risks for cybercrime are high, due to malware and ransomware attacks by cyber criminals using changing techniques. Risks concerning the security of websites and privacy-sensitive information also remain high. This is due to the digitisation of our services whereby changes are made to our websites and IT environment. Information security management within Achmea Bank focusses on the permanent realisation of an optimal level of availability, integrity and confidentiality of information and information systems in order not to jeopardise business continuity, not to harm the interests of customers, to protect and prevent financial and reputational damage and to comply with laws and regulations. Control measures have been included for this in the Control Framework (CFW), focusing on cyber security, IT architecture, data centre facilities, IT operations, logical access security and change management.

External and internal fraud

Mutual trust is an essential condition in the relationship between employees, customers and other relations and Achmea Bank. Fraud has negative consequences in this relationship and for the reputation of Achmea Bank and the industry. Prevention of, and action against, fraud is therefore necessary. Achmea Bank never accepts fraud ('zero tolerance'). We therefore pursue an active fraud policy and consistently take measures against any form of fraud. We are also obliged to do this by law and regulations. The fraud management policy focuses on both internal fraud (employees and directors) and external fraud (customers, suppliers and other relations).

Privacy

Personal data are processed within Achmea Bank on a daily basis. In order to protect the privacy of all those involved, it is very important that the processing of personal data is done carefully and in compliance with the laws and regulations on the protection of personal data. Achmea wants to be compliant with these laws and regulations, and therefore a Privacy Policy has been drafted, which is also applicable to Achmea Bank. The policy provides guidelines for, among other things, the lawful and unlawful processing of personal data, transparency and disclosure obligation and the (timely) reporting of data breaches. The policy has been translated into the CFW, based on which the privacy risks within Achmea Bank are managed and monitored and compliance with the Dutch privacy law is ensured. Furthermore, Achmea Bank has appointed a Privacy Officer, who acts as the point of contact for all privacy-related matters within the organisation and towards service providers. This is completed by the so-called "privacy triangle," a weekly consultation structure of Privacy Officer, Data Protection Officer and Legal Affairs on all privacy-related issues, in order to provide each relevant topic with views from the various disciplines. These three functions all have a role in Privacy Impact Assessments to be carried out.

Data risk management

Data plays a significant role in organisations. This is certainly true for Achmea Bank, which aims to be a data driven network bank. In addition to increasingly stringent legal requirements, there is also a growing need to manage data from a commercial and operational perspective: by translating data into information and transforming it into knowledge, it can be used to create business value; e.g. more sales, insight into customer needs and/or lower costs. Data management is an absolute precondition for this. Achmea Bank has a robust Data Governance framework, in which we take care of the assurance of data quality throughout the chain. For a solid data management organisation, clear roles, decision making bodies, rules and procedures are essential. In this way Achmea Bank can ensure that data is correctly defined, monitored and used throughout the data life cycle.

Outsourcing/Third-party risk

Achmea Bank is a data driven network bank and has further developed her strategy of optimising results by adding value with our business partners. On the one hand this aims at developing shared objectives and explore innovate ways of reaching those objectives. On the other hand, the responsibility of being a prudent financial institution sets strict obligations on how partnerships are to be managed. Simultaneously we have been improving on our management of outsourcing risk throughout the supply chain. Outsourcing risk is the risk that the continuity, integrity and/or quality of the outsourced activities are harmed. Achmea Bank follows a tight process when entering into and managing outsourcing arrangements. The external outsourcing contracts are being professionally managed in a controlled and proportionate way, as required by the EBA guidelines on outsourcing. In 2022 efforts have been made to also manage the internal outsourcing contracts as required by EBA. As part of the CFW Achmea Bank has set up key controls to periodically test compliance with the outsourcing process and the outsourcing policy.

Business Continuity Management

Achmea Bank is expected to adopt all necessary measures to safeguard business continuity and ensure a timely disaster recovery, both in terms of policies and the functioning of physical assets, including IT systems. This includes recognising threats and their potential impact, determining the minimum required level of services to customers and other stakeholders, and implementing and testing measures to prevent major disruptions of business-critical chains and the impact of the disruptions is limited to an acceptable proportion. Control measures have been included for this purpose in the CFW, aimed at preventing long-term system failure and back-up and recovery of data and systems.

Model risk

Achmea Bank uses several internal models in conducting its business. The use of such models invariably presents model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business and strategic decision making, or damage to the bank’s reputation. To mitigate model risk Achmea Bank has a structured model risk management process in place. Individual models are subjected to different controls and model validations across their lifecycle depending on their impact and complexity. It is therefore required to perform a model risk assessment which results in an overview of categorised models. Reassessment takes place on a yearly basis. The assessment consists of an inventory of all models, risk assessment, mitigating measures (e.g. documentation, testing, 4-eyes etc.), and additional measures to be taken.

Customer due diligence

Anti- money laundering and countering the financing of terrorism are high attention topics on the monitoring agenda of the supervising authorities. Achmea Bank has a function as a gatekeeper for the financial system and in this role helps to detect and prevent financial crime. Risks in this respect are mitigated by performing Customer Due Diligence, Sanction screening and Transaction Monitoring in her operational activities. Achmea Bank continues to increase investments in this domain, both in personnel and in systems, and the compliance function (1^{st} and 2^{nd} line) is continuously working to improve the CDD framework. This involves looking at ways to improve efficiency within Achmea Group.

Duty of care

Achmea Bank offers savings and mortgage products. Achmea Bank considers it important to enable its customers to make informed choices based on information that meets legal requirements and that is understandable to an average customer. To do so Achmea Bank has implemented a duty of care policy, based on several guiding principles and compliant with laws and regulations. Effective application of the policy by the business is tested as part of the CFW.

Integrity risk

For customers to have confidence in financial institutions, it is essential that institutions have operate with integrity. The purpose of this is to manage the integrity risks and thus the integrity of both the institution itself and the financial sector as a whole. Integrity is a precondition for a healthy financial system. Achmea Bank attaches great value to conducting business with integrity. To contribute to these objectives, Achmea Bank conducts an annual Systematic Integrity Risk Analysis (SIRA), in line with requirements of law and regulations. For each integrity risk relevant scenarios are described, indicating how risks may arise through factors such as customers, employees, third parties, products and services or countries. Integrity risks in scope of the SIRA, in line with DNB guidance, include money laundering, fiscal fraud, corruption, circumvention of sanctions, financing of terrorism, conflict of interest, internal fraud, external fraud, cybercrime, market manipulation and misconduct.

MANAGEMENT AND CONTROL

Operational Risk Management Process

Achmea Bank has a structured process for identifying, assessing, monitoring and reporting operational risks as described above. This process comprises the following key activities:

- Identification: identification of all (key) risks and related controls;
- Assessment and response: evaluation of risks and controls and formulation of appropriate actions;
- Monitoring: regular review of the risk profile and exposure in relation to risk appetite;
- Reporting: articulating the risk profile for internal governance and external reporting requirements.

Achmea Bank's Operational Risk Management Framework (ORMF) is supported by the following tools:

- Loss Event Management and loss database: analysis of events to identify new operational risks, understanding the underlying causes and control weaknesses, and formulating an appropriate response to prevent recurrence of similar events; Risk events are registered in a central database;
- Risk Self Assessments: performing self-assessments of operational risks and controls on different levels. These include Strategic Risk Assessments, Project Risk Assessments, Operational Risk Assessments and specific variants of the latter, e.g. Model Risk Assessments, Systematic Integrity Risk Analysis, Privacy Impact Assessments;
- CFW: a structured approach to evaluate, review, test and monitor the key controls in place;
- Metrics: monitoring of Key Risk Indicators and related trends through time against agreed thresholds or limits to provide early warning information;
- Issue Management: ongoing monitoring of the timely remediation of observed issues in the management and controlling of risks.

Operational Risk Governance and Policy

To manage operational risks Achmea Bank relies on three lines of defence. The first line of defence is business unit management which is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable. Compliance & Operational Risk Management is the second line of defence and provides independent risk oversight over business processes and the proper implementation of the risk management policies and framework. The third line comprises the internal audit function which provides independent assurance to the board of the appropriateness of Achmea Bank's ORMF. At least every three months the risk management cycle is discussed in detail by the Finance & Risk Committee.

The Operational Risk Policy describes the objectives of operational risk management, the governance structure, roles and responsibilities and the overall design of the ORMF. The policy is reviewed every year and contains additional policies and procedures for specific risk events, such as for information security, business continuity, outsourcing and compliance/integrity.

No security incidents occurred in the previous year which significantly harmed or affected the provision of services to clients, nor did any material loss or damage occur as a result of instances of fraud.

Capital Calculation

The Bank applies the basic indicator approach for calculating its operational risk capital charge under Pillar I of the Basel framework.

Security and fraud incidents in 2022

No security incidents occurred in the previous year which significantly harmed or affected the provision of services to clients, nor did any material loss or damage occur as a result of instances of fraud.

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

One of the Bank's objectives is to generate a positive interest margin on its banking operations. The Bank's market risk mainly consists of interest rate risk in the banking book. The Bank has a strict policy on mitigating foreign currency risk and uses financial instruments to hedge interest rate risk and foreign currency risk.

The Balance Sheet Management & Financial Risk department is responsible for monitoring and managing the Bank's market risk. Transactions on the financial markets are supported and executed by Achmea Treasury department and Corporate Finance department. The Bank's risk exposure is discussed during ALCo meetings and appropriate action is taken if necessary.

Achmea Bank does not engage in proprietary trading activities on financial markets and therefore does not calculate a pillar 1 market risk capital charge.

Governance of management interest rate risk in the banking book
Interest rate risk is the present or future risk of a decline in total equity and interest income due to changes in market interest rates. The Bank hedges the interest rate risk arising from its mortgage lending and funding operations mainly by means of interest rate derivatives (swaps), but also with investments (for example government bonds) and (long-term) funding instruments like retail savings.

Interest rate risk is managed from both an income and value perspective:

- Value perspective: Effects of a change in interest rate on the economic value of total equity; and
- Income perspective: Effects of a change in interest rate on the income statement (and therefore in the net result).

Several limits have been set on the bank's interest positions under the interest rate risk policy and Risk Appetite. ALCo uses duration and Income-at-Risk as the main ratios to manage interest rate risk. Treasury is responsible for executing the decisions of ALCo.

RISK MEASUREMENT

Effects of a change in interest rates on total equity

The impact on total equity is based on the market value of all financial instruments. It is not directly visible in the income statement or in the consolidated statement of the financial position as most instruments are recognised at amortised cost.

The Bank uses various methodologies to monitor the impact of IRRBB:

- Duration of equity: measures the sensitivity of the market value of equity due to a parallel shift (shock) of the interest rates of one basis point;
- Sensitivity analysis: measures the effect on the market value of total equity of an event that is exceptional, but relevant to the Bank. It comprises a sudden, parallel shift of the interest rate curve (swap curve) by 200 basis points (up and down). The impact of a non-parallel shift can be higher than that of a parallel shift. The sensitivity analysis recalculates the market value of the entire portfolio under the above-mentioned scenarios;
- Income at Risk: measures the impact on the interest income by a fluctuation of the interest rates.

Sensitivity analyses are also used in management reports and discussed in ALCo. The outcome of the sensitivity analysis is within the internally applied limits.

DURATION

IN YEARS	2022	2021
Duration of equity	0.7	2.6

The table above shows that the duration of equity of Achmea Bank has decreased from 2.6 years at 31 December 2021 to 0.7 years at 31 December 2022.

SENSITIVITY ANALYSIS

IN MILLIONS OF EUROS	2022	2021
Parallel shift in the yield curve of 200 basis points downward	-9	-19
Parallel shift in the yield curve of 200 basis points upward	-25	-72

The impact on the EVE of a 200 basis point upward shift of the yield curve is EUR -25 million at 31 December 2022, compared to EUR -72 million at 31 December 2021. The EVE impact is smaller (less negative) than in 2021. This is mainly because of a lower duration of equity.

The impact on EVE of a minus 200 basis point downward shift of the yield curve is EUR -9 million at 31 December 2022, compared to EUR -19 million at 31 December 2021.

Effects of a change in the interest rate on income statement

Income at Risk measures the sensitivity of the net interest income to several interest rates shock scenario's and has a time horizon of one year, in line with EBA guidelines.

The most adverse scenario at 31 December 2022 is a 200 basis points downward shift of the yield curve. In this scenario the Income at Risk amounts to EUR -56 million, compared to EUR -9 million at 31 December 2021. This increase is mainly caused by the strong increase in market interest rates during 2022. At 31 December 2021 the downward shifted interest rates were still cut off because of the EBA floor. Because of the higher interest rate environment at 31 December 2022, the downward shifted interest rates are no longer floored. Therefore, the Income at Risk is subject to the full downward shift in interest rates.

In addition, the volume of payer swaps increased significantly, because of steering towards a lower duration of equity, a growing mortgage portfolio and because of hedging the impact of client behaviour effects on the mortgage portfolio. The floating legs of these payer swaps, on which the Bank receives a variable interest rate, negatively impact the Income at Risk in a 200 basis points downward shift scenario. The Income at Risk is closely monitored by ALCo and is expected to be lower in the near future.

INTEREST RATE RISK EXPOSURE

IN MILLIONS OF EUROS	2022	2021
Income at Risk	-56	-9

FOREIGN CURRENCY RISK

Part of the Acier loan portfolio is denominated in CHF (EUR 361 million at year-end 2022). This position is hedged by CHF unsecured bonds (EUR 305 million). The remaining CHF exposure is hedged on a monthly basis with foreign exchange derivatives (EUR 54 million). The net valuation effect over 2022 amounts to a EUR 0.1 million loss (2021: EUR 0.1 million loss) and is recognised in changes in fair value of financial instruments.

FOREIGN CURRENCY EXPOSURE

	2022			2021		
In thousands of euros	Total exposure	Notional amounts of hedging instruments	Net exposure	Total exposure	Notional amounts of hedging instruments	Net exposure
Assets						
Swiss Franc	364,510	362,547	1,963	362,465	362,511	−46
	364,510	**362,547**	**1,963**	**362,465**	**362,511**	**−46**

CLIMATE-RELATED RISK

From a risk management perspective, the primary focus has been on the environmental aspects of ESG. In particular, we analysed climate-related risks for both financial risks and non-financial risk. During 2022, efforts were made for integration of climate risks in our risk management frameworks. In general, the risks are seen as a risk driver of existing risk types such as credit risk, market risk, operational risk, strategic risk and reputational risk, and the existing risk governance is applied.

For financial risk, we analysed both physical risk and transition risk. Based on data provided by Climate Adaptation Services, a concentration risk analyses on foundation problems, water logging and floods reveals that there is no material impact on the mortgage portfolio from a credit risk perspective in the near future. A similar conclusion holds for transition risk, which was analysed using scenario analyses and stress testing with energy-label-specific house price developments. While physical risks have been identified as long-term threats, transition risks may have an impact on the financial risk sooner. Efforts to improve analyses and monitoring activities regarding the climate and environmental aspects have been ongoing and this will continue in 2023. In line with the risk management cycle, further insights will be gathered that may lead to alterations of the risk appetite, credit risk policies and credit risk management practices.

For non-financial risk, the focus of the analysis has been on assessing the extent to which physical climate risks could result in material disruptions to the services we provide our savings and mortgage customers. Critical and important functions are central to this, with Achmea Bank having outsourced various key operational activities to third parties. Preliminary results show that no major impact is expected in the short term. Furthermore, the transition to a sustainable economy may entail risks for Achmea Bank if it fails to transform in time. This may result in failure to comply with laws and regulations and could compromise our reputation, with consequences for attracting investors or entering into collaborations with existing and new partners. Further analyses in this area are in progress and may lead to adjustments to non-financial risk policies and actions to be taken, in line with our risk appetite.

REMUNERATION PRINCIPLES AND POLICY

The Supervisory Board periodically evaluates remunerations in the context of the Achmea Group remuneration policy. Remuneration issues are discussed by the entire board rather than in a separate remuneration committee. The Supervisory Board gave opinion on the remuneration of the Managing Board as determined by the Group. More details regarding remuneration policies can be found in the Remuneration Report and on achmea.nl or achmea.com.

APPENDIX: TEMPLATES

The templates related to the Pillar III requirements which are published in the Annexes can be found in the additional template file (Pillar III disclosure templates 2022).

Colophon

This is the English version of our 2022 annual report. There is no Dutch version of this report. The annual report can be downloaded from our website achmeabank.com.

We are happy to receive your reaction concerning this annual report via the address mentioned below.

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